

Innovative Finance: Issues for Consideration

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Amna Cameron
Fiscal Research Division



FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

Agenda

- Background
- Types of Tolling and Public-Private Partnership Arrangements
- National Perspective
- Advantages and Disadvantages
- Items for Consideration

What is Innovative Financing?

What is it? Ways to Raise Additional Financing

Why?

1. Speeds construction time
2. Provides needed revenues
3. Shares risk

Examples Discussed:

- Tolling
- Public-Private Partnerships (P3s)

Background

- Use of tolling ebbs and flows
- First US toll project built in 1795
 - Why did it fail?
- Mid-1900's Resurgence
 - Mass production of automobiles spurred next wave
 - Creation of Turnpike Authorities
 - Toll revenues used to back bonds
- 1916 – Federal law prohibits tolling on federal-aid highways

Background continued

- 1956 – Interstate Highway System created
 - Federal Highway Trust Fund created
 - Banned tolling on Interstate System
- 1957 – Allowed some tolled sections into Interstate Highway System
- 1970's and 1980's - Next resurgence focused on Urban Expressways
- 1990's Public Private Partnerships gain prominence

Background continued

- Current times: Tolling increasing
- Over 350 active toll projects
- Why are tolls growing in popularity?
 - Federal restrictions continue but more exceptions being made
 - Available revenues do not fund needs
 - Motor fuel tax consumption down nationally
 - Increasing motor fuel tax rate seen as unfeasible
 - Travel times increasing
 - Growing and shifting population increasing congestion

Tolling Options

- Traditional
- Pricing/ congestion pricing/ value pricing
 - Price fluctuates with demand
- Managed lanes
 - Lanes dedicated for special use
 - Examples:
 - High-Occupancy Vehicle (HOV) lanes (non-tolled)
 - High-Occupancy Tolling (HOT) lanes
 - Express toll lanes
- Cordon Pricing
 - Tolls apply to all routes leading to congested area

Public-Private Partnership Options

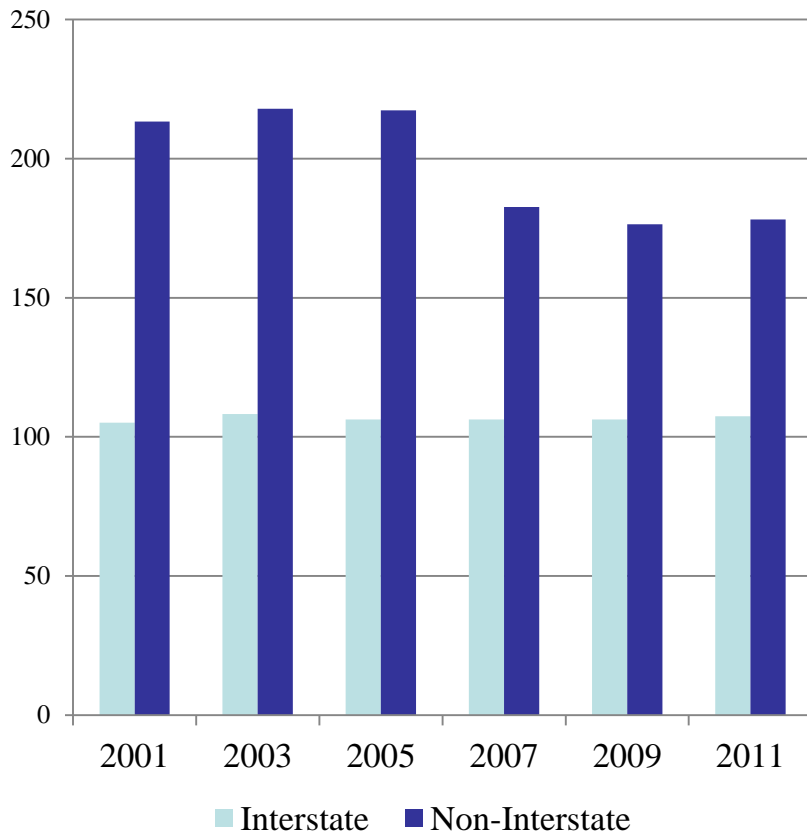
- Ranges from simple (design-build) to complex (design-build-finance-operate-maintain)
- Profit concessions depend on project type
 - Toll concessions
 - Availability payment concessions
 - Shadow toll concessions
- Risk allocation depends on project type
 - Risk shared, retained, or transferred

National Perspective

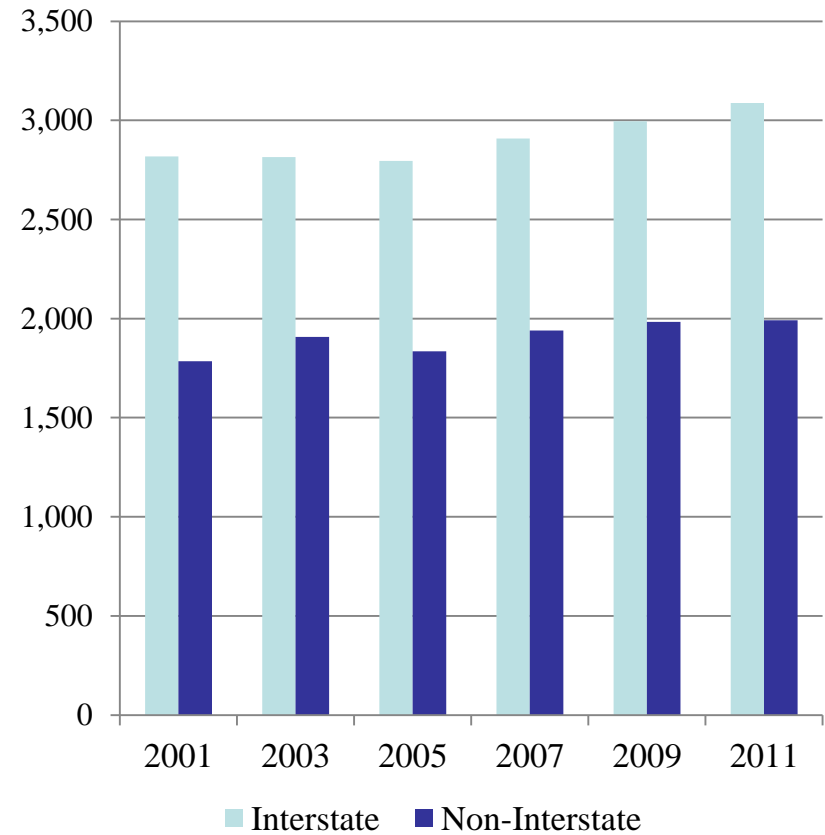
- Tolling authorities may be DOT controlled, or created as project specific, regional, multi-state, or consolidated independent entities.
- The use of tolling is increasing.
- The use of P3s is increasing.
- Florida leads the nation in total mileage for toll road projects and the number of roads tolled.
- NY has the most tolled bridges and tunnels.

National Perspective

Toll Bridge & Tunnel Mileage



Toll Road Mileage



Perceived Advantages

- Financial Benefits
 - Accelerates project completion
 - Funds project costs
- Congestion pricing may provide guaranteed travel time
- Users choose: Is money spent worth time saved?
- Technology removes prior negatives

Perceived Disadvantages

- Income Equity (regressivity)
- Geographic Equity
- Participation Equity
- Additional Economic Burden
 - Increases cost of trucking goods
- Double-taxation?

Issues for Consideration

- Legislative direction needed to set criteria
- Legislative direction means:
 - Standards are established
 - Public protections are included
 - Oversight is performed
- Legislative direction \neq selecting projects

Statute, Policy, or Contract

Primary Statutory Issues:

- ✓ Types of P3 agreements allowed
- ✓ Authority to enter P3 agreements
- ✓ Authority to *approve or* review P3 agreements
- ✓ Types of facilities allowed

Statute, Policy, or Contract

Issues addressed through Policy and/or Statute:

- ✓ Types of financing/subsidies allowed
- ✓ Public uses of proceeds
 - Ability to hire external advisors
 - Types of procurement allowed
- ✓ Whether unsolicited proposals are allowed
 - Whether bidder stipends are allowed
- ✓ Whether administrative fees are allowed
- ✓ Whether to remove performance security
- ✓ Criteria to evaluate potential P3 projects
 - Criteria to select bidder

Statute, Policy, or Contract

Issues addressed through Contract and/or Statute:

- Length of contract term
- ✓ Toll rates and toll rate setting mechanisms
- ✓ Allocation of risks
- ✓ Revenue sharing
- Dispute resolution
- Buy back provisions
- Refinancing provisions
- ✓ Ongoing performance audits and reports

Additional Issues for Consideration

- Which comes first? The mighty eagle (legislation/NCGA action) or the egg (DOT/policy development)?
- What is the role of the Turnpike Authority moving forward?
- What is the role of the Treasurer's Office?